

## **Envisioning Small Business Reform**

# Prepared by the Small Business Reform Task Force

May 1, 2002

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www.sba.ca.gov (under construction, estimated completion: July 1, 2002)

#### LETTER FROM THE PANEL

May 1, 2002

TO: The Honorable Gray Davis
Governor of the State of California

Assemblymember Jenny Oropeza, Chair California State Assembly Committee on Budget

Senator Steve Peace, Chair California State Senate Committee on Budget and Fiscal Review

Dear Governor Davis, Assemblymember Oropeza and Senator Peace:

It is our privilege to present the following report created by the Small Business Reform Task Force (SBRTF) entitled *Envisioning Small Business Reform*.

In response to our charge established by Assembly Bill 505 (Wright), we have created the following report for the purposes of:

- (1) Revisiting the definition of a small business;
- (2) Voicing small business challenges, both in the general market as well as in interactions with the state;
- (3) Inventorying current state resources available to small businesses; and
- (4) Presenting recommendations for addressing small business needs.

Throughout the process of assembling our findings and the report, we received timely access to key data from numerous state agencies and technical assistance from senior State agency employees. We thank those who contributed to the development of the report. The support made this report possible.

As our research highlights, reform is needed to support a major factor in the State's economic and cultural vitality: small businesses. Small businesses comprise 98% - or 2.5 million - of the companies in the State, employing more than 50% of the workforce and generating more than half of the gross domestic product. The report contains significant and feasible recommendations for improving the viability of this major economic force.

On behalf of the entire Task Force, we look forward to collaboratively working with you in this regard.

Sincerely,

Sonya K. Blake Chair, Small Business Reform Task Force & Director, Governor's Office of the Small Business Advocate

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## **EXECUTIVE SUMMARY**

California small businesses are an economic engine that fuel the State economy and bring richness to our thriving culture. Employing more than 50 percent of the State's workforce and generating more than half of the state's gross domestic product, small businesses are instrumental to the health of our economy. Moreover, the entrepreneurial spirit upon which they are founded brings innovation and diversity to our culture and enriches the lives of Californians. It is in the interest of the State to assist and protect small business concerns in order to preserve free competitive enterprise, maintain a healthy state economy and enhance the quality of life throughout the State.

In recognition of this public interest, Governor Davis signed Assembly Bill 505 (Wright), which established the Small Business Reform Task Force (SBRTF). The task force is chaired by the SBA Director, appointed on March 18, 2002, and includes representatives appointed by the Governor from the California Small Business Association, other small business associations, and agency secretaries or their designees from state agencies significantly involved in small business regulation.

With this report, Envisioning Small Business Reform, the SBRTF will:

- (1) Revisit the definition of a small business;
- (2) Voice small business challenges, both in the general market as well as in interactions with the state:
- (3) Inventory current state resources available to small businesses; and
- (4) Present recommendations for addressing small business needs.

In order to understand the needs of California's small businesses, the SBRTF reviewed data compiled via interviews, focus groups and forums by four State entities:

- ➤ State Consumer Services Agency's Department of General Services
- > Business, Transportation and Housing Agency
- Technology, Trade and Commerce Agency
- Workforce Investment Board

The data reveal seven market challenges for small businesses:

- Developing new business
- Access to capital
- > Regulations and paperwork
- Finding and keeping good workers
- Costs of doing business
- > Management infrastructure
- Maximizing technologies

In addition, the data indicated nine challenges that small businesses encounter with the State:

- Multiple small business definitions
- > Budget cuts
- Regulations and paperwork
- Costs of doing business
- Procurement issues
- Availability of technical assistance
- > Availability of financing
- Inadequate advocacy
- Lack of communication

Having identified these challenges and analyzed the State's existing resources for small businesses, the SBRTF proposes the following recommendations:

- Protect small business activities and advancements by continuing State funding to the greatest extent possible and augmenting funding from additional sources.
- 2. Launch a communications campaign to inform small businesses of currently available opportunities using plain language organized by topic:
  - A. Post information on the new web-site that will inform small businesses about the programs and resources available from the State and will include links to key web-sites to access these services. This would include programs in procurement, technical assistance, financing, workforce development, technology and other topics of interest, as well as relevant legislation and permitting and licensing assistance.

- B. Publish a Small Business Guide to the State. This will be effective in communicating resource information to small businesses at events and to those without access to the internet.
- C. Conduct outreach at community organizations throughout the State from Small Business Day (May 29) through the Governor's Small Business Economic Summit (Fall, 2002) to promote participation in the State's small business services.
- 3. Establish and promote a multi-faceted intake system designed to gather reform ideas from the small business community:
  - A. Establish a web-based intake system that will facilitate understanding and prioritization of the reforms needed for companies of differing sizes, industries, regions, etc.
  - B. Produce a printed version of the web-based intake system for distribution and collection at public hearings, focus groups, interviews and events organized around the state.
- 4. Convene monthly meetings of the SBRTF to complete the action items outlined in AB 505 as well as to develop strategies for:
  - A. Defining small business more clearly.
  - B. Investigating cost and red tape reductions for small businesses, and recommending further, more specific actions to remedy these reductions.
  - C. Assisting DGS and the Small Business Council on further improving procurement systems and providing Small Business Procurement Advocates with adequate information and resources to effectively serve small businesses.
  - D. Assisting TTCA and the Small Business Board to 1) identify sources of funding to augment financing programs and 2) work with the US SBA and CA Community Colleges to deliver consistent technical assistance programs statewide.

### INTRODUCTION

Small businesses comprise one of the most dynamic sectors of California's economy and contribute a distinct richness to our culture and quality of life. As a powerful economic engine, small businesses comprise 98% - or 2.5 million - of the companies in the State, employ more than 50% of the workforce and generate more than half of the gross domestic product for the world's 5th largest economy. Innovative, diverse and resilient, small businesses contribute significantly to the fabric of California life. Nevertheless, the challenges of revenue generation, competition and costs of doing business are taking a toll on our small businesses.

The Small Business Regulatory Reform Act of 2000 (AB 505) was established to alleviate obstacles inhibiting small business success. AB 505 revises various provisions of the Administrative Procedures Act, which govern the adoption, amendment or appeal of state regulations, in order to better facilitate regulatory changes. Authored by Assemblymember Wright with bi-partisan and small business community support, the legislation was chaptered into law on September 30, 2000 and established:

- ➤ The Small Business Reform Task Force (SBRTF) to recommend reforms in support of small business success (See Appendix A);
- ➤ The Governor's Office of the Small Business Advocate (Governor's SBA) to promote the interest of California's small businesses and chair the SBRTF (See Appendix B); and
- Small business liaisons within each Agency to assist small business with understanding and gaining access to Agency information and resources;

The SBRTF includes representatives appointed by the Governor from the California Small Business Association, other small business associations, and agency secretaries or their designees from state agencies heavily involved in small business regulation. Meetings are open to the public. With its chair appointed on March 18, 2002, the SBRTF held its first meeting on April 17, 2002.

#### Task force members include:

>	Ms. Sonya Blake, Chair	Director, Office of the Small Business Advocate	Los Angeles
>	Secretary Lon Hatamiya	California Trade & Commerce Agency	Sacramento
>	Secretary Maria Contreras- Sweet	Business, Transportation & Housing Agency	Sacramento
>	Secretary Aileen Adams	State & Consumer Services Agency	Sacramento
	Ms. Betty Jo Toccoli	Total One Development	Culver City
>	Mr. Paul Pendergast	Pendergast & Associate	San Francisco
>	Mr. Wayne Perry	Cornerstone Concilium	San Francisco
>	Ms. Mary Walters-Gillick	Small Business Success Advisors	San Diego
	Mr. Bruce Wilson	The Wilson Group	Sacramento
>	Ms. Tina Nova	Genoptix, INC	San Diego
>	Mr. H. Cooke Sunoo	Asian Pacific Islander Small Business Program	Los Angeles
	Mr. Calvin Womble	The Ellington Group, INC	San Francisco
>	Mr. Alexander Rosas	Business Development for the Mayor of Los Angeles	Los Angeles
>	Mr. Peter Wohl	Arthur Anderson, LLP	San Francisco

### The goal of this report is to:

- (1) Revisit the definition of a small business;
- (2) Voice small business challenges, both in the general market as well as in interactions with the state;
- (3) Inventory current state resources available to small businesses; and
- (4) Present recommendations for addressing small business needs.

### **METHODOLOGY**

The SBRTF collected data compiled via small business interviews, focus groups and forums by four state agencies as follows:

The State Consumer Services Agency's Department of General Services
The Department of General Services conducted 17 interviews with 22 small business leaders in both Northern and Southern California. Participant input illuminated general small business needs as well as procurement outcomes that would benefit small business owners.

#### ➤ The Business, Transportation and Housing Agency

The Business, Transportation and Housing Agency conducted a series of community meetings during the months of April and May of 2001 involving a total of 35 small business and industry representatives. The purpose of the meetings were to solicit input from the community to set in motion a series of outreach forums addressing specific small business concerns and issues. Representatives from various community-based organizations, cities, counties and industries attended and provided comment. Meetings were held in major California cities: San Diego, Los Angeles, San Francisco and Sacramento.

#### > The Technology, Trade and Commerce Agency

The Technology, Trade and Commerce Agency administers the California Small Business Board, which advises the small business communities on state financial programs, advises the Governor on matters and issues affecting the small business community and serves as an advocate to the small business community. The Governor-appointed board members include legislators and small business owners representing a broad spectrum of the California economy. The board received testimony from 25 small business representatives regarding issues affecting small businesses during their Los Angeles and Fresno Region Meetings on January 31, 2002 and April 3, 2002, respectively.

#### > The Workforce Investment Board

The Small Business Workgroup of the California Workforce Investment Board is researching California's small business workforce and employer service needs, as well as determining how the workforce investment system can

effectively address such service needs and how to further improve the services provided at their One Stop Service Centers. As a result, a series of regional small business forums are being conducted throughout the State to market the One Stop delivery system and to gather input from small business owners on their respective regional economy. Findings from the Central Valley Small Business Forum on February 27, 2002 were used in this study. The forum involved 100 attendees, with 68 of those representing small business related interests.

Each body of data revealed general small business concerns as well as feedback on the specific area of interest presented, providing an adequate framework for assessing the small business needs and areas of needed reform.

Before undertaking an analysis of small business needs, we will revisit the definition of "small business."

## Who Is SMALL Business?

From the family farms in Fresno to the "tech coast" of Orange County, from the wineries in Napa to the Mom and Pop grocer in Los Angeles and from the law firm in San Diego to the dim sum restaurant in San Francisco, small businesses are the lifeblood of the California culture.

The small businesses of California are innovative, diverse and resilient. They give rise to new technologies, renewable sources of energy and landmark trends that define contemporary culture. Women-owned businesses weigh in as almost half of the State's total number of companies, Latina-owned companies are the fastest-growing sector of small business and immigration is fueling new business start-ups throughout the State. Even through challenging economic times in our nation, California's small businesses continue to grow and capitalize on new business opportunities made available to them.

#### **Small Business Definition**

AB 505 provides the State's universal definition of a small business:

"Small business" means a business activity in agriculture, general construction, special trade construction, retail trade, wholesale trade, services, transportation and warehousing, manufacturing, generation and transmission of electric power or a health care facility (unless excluded below), that is both of the following:

- Independently owned and operated; and
- Not dominant in its field of operation.

"Small business," however, does not include the following professional and business activities:

➤ A financial institution including a bank, a trust, a savings and loan association, a thrift institution, a consumer finance company, a commercial finance company, an industrial finance company, a credit union, a mortgage and investment banker, a securities broker-dealer or an investment adviser:

- An insurance company, either stock or mutual;
- > A mineral, oil, or gas broker;
- > A subdivider or developer;
- ➤ A landscape architect, an architect or a building designer;
- ➤ An entity organized as a nonprofit institution;
- An entertainment activity or production, including a motion picture, a stage performance, a television or radio station or a production company;
- ➤ A utility, a water company or a power transmission company generating and transmitting more than 4.5 million kilowatt-hours annually;
- A petroleum producer, a natural gas producer, a refiner, or a pipeline;
- ➤ A business activity exceeding the following annual gross receipts in the categories of:
  - ◆ Agriculture: \$1,000,000;
  - ◆ General construction: \$9,500,000;
  - ◆ Special trade construction: \$5,000,000;
  - ◆ Retail trade: \$2,000,000;
  - ♦ Wholesale trade: \$9,500,000;
  - ◆ Services: \$2,000,000; or
  - ◆ Transportation and warehousing: \$1,500,000.
- ➤ A manufacturing enterprise exceeding 250 employees; or
- ➤ A health care facility exceeding 150 beds or \$1,500,000 in annual gross receipts.

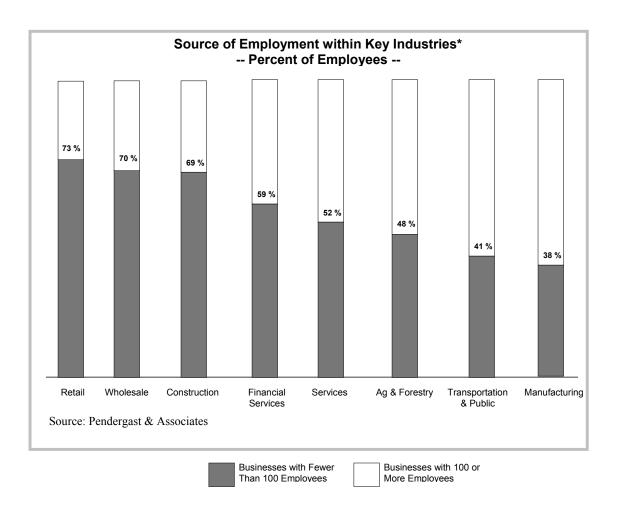
The definitions of a small business, however, may vary between State services and programs. For example, Assembly Bill 2505 (Ch. 821, Statutes of 1998) sets forth a simplified definition of small businesses which is utilized for State procurement activities:

"Small business' means an independently owned and operated business, which is not dominant in its field of operation, the principal office of which is located in California, the officers of which are domiciled in California, and which, together with affiliates, has 100 or fewer employees, and average annual gross receipts of ten million dollars (\$10,000,000) or less over the previous three years, or is a manufacturer with 100 or fewer employees."

Still other definitions of small business may apply in situations where federal and local agencies are involved, such as with the Business, Transportation and Housing Agency's Department of Transportation (CalTrans). The SBRTF, however, utilizes AB 505's definition of a small business.

#### **Small Business Facts**

The following table illustrates the percent of total businesses by major industry that have fewer than 100 employees:



The table on the following page depicts the number of businesses, as well as the amount of employees and third quarter payroll for year 2000 according to staffing size. Additional statistics are included in Appendix E.

## Number of Businesses, Number of Employees & Third Quarter Payroll by Size of Business Categories

Employment Development Department Labor Market Information Division State of California Third Quarter, 2000<sup>1</sup>

					Size of Busin	ess Categories				
	Total	0 to 4	5 to 9	10 to 19	20 to 49	50 to 99	100 to 249	250 to 499	500 to 999	1000 +
Number of Businesses <sup>2</sup> Percent	1,046,790 100.00%	663,510 63.39%	147,624 14.10%	101,293 9.68%	79,284 7.57%	31,425 3.00%	16,815 1.61%	4,298 0.41%	1,605 0.15%	936 0.09%
Number of Employees <sup>2</sup> Percent	15,144,896 100.00%	883,911 5.84%	979,381 6.47%	1,372,640 9.06%	2,426,777 16.02%	2,171,799 14.34%	2,510,579 16.58%	1,471,340 9.72%	1,092,170 7.21%	2,236,299 14.77%
Third Quarter Payroll <sup>2</sup> (in thousands) Percent	\$151,942,933 100.00%	\$7,744,376 5.10%	\$7,653,733 5.04%	\$11,011,854 7.25%	\$20,284,077 13.35%	\$19,469,493 12.81%	\$24,311,571 16.00%	\$17,022,583 11.20%	\$13,013,859 8.56%	\$31,431,387 20.69%

<sup>&</sup>lt;sup>1</sup>. The number of businesses may appear to be conflicting with other figures included in this report. The information shown in this table is derived from data submitted on Contribution Returns and on Employment and Payroll Distribution Schedules by employers covered under the Unemployment Insurance Code for the third calendar quarter of 2000. It also counts all business with multiple locations as one entity. For example, a restaurant chain with locations throughout the state would only be counted as one employer regardless if one or more of the locations are privately owned.

<sup>&</sup>lt;sup>2</sup> Data for one business in size "1000 +" combined with size "500 to 999" to prevent disclosure of confidential data.

## THE VOICE OF SMALL BUSINESS

The small businesses of California need assistance and investment from the State in order to thrive. Severely undercapitalized, many of our small businesses are challenged to build a future revenue stream for their companies while implementing the projects already in the pipeline. Many of our small businesses are fighting to survive in light of increasing competitiveness of the growing global economy. Still others are attempting to balance significant costs of doing business and complying with new and changing federal, state and local regulations. Giving voice to the issues of small business reveals the top challenges they face in the market as well as the challenges they face when interacting with the State.

#### Top Small Business Market Challenges:

- > Developing new business
- > Access to capital
- > Regulations and paperwork
- Finding and keeping good workers
- Costs of doing business
- > Management infrastructure
- Maximizing technologies

#### **Developing New Business**

One of the greatest challenges for small businesses, the pursuit of new business is an all-consuming endeavor that devours the entrepreneur's time, energy and resources. Small businesses are challenged to generate adequate sales to sustain and grow their companies.

#### Access to Capital

Severely undercapitalized, small businesses are sorely in need of financing for start-up, working capital, equipment and building acquisition and expansion. They are oftentimes challenged to amass adequate resources as collateral. Moreover, many have not

developed banking relationships to position themselves for a loan nor have they developed an in-depth knowledge of the lending process in order to prepare adequately.

#### Regulations and Paperwork

Small businesses do not have the wherewithal to study and navigate the complex maze of regulations to which they must comply. This places them unwittingly in the position of non-compliance and subjects them to hefty fines, the cost of which can put them out of business. Moreover, to the extent to which compliance requirements are clear, processes may require volumes of forms, which require staffing to complete. Small businesses simply do not have the resources to accommodate these requirements.

#### Finding and Keeping Good Workers

Talented employees are the lifeblood of any business, however recruiting and retaining qualified employees is an expensive process. To be effective, businesses must implement a process of advertising, interviewing and processing hires followed by a continuing process of motivating, compensating and evaluating employees. Small businesses are challenged to rally adequate resources to develop the critical human resources they need in order to succeed.

#### Costs of Doing Business

As small businesses attempt to grow and hire employees, they encounter expenses – many of which are unanticipated -- that render the companies unprofitable. The cost of doing business is a serious impediment to small business profitability and therefore viability. The costs most frequently cited include:

- ➤ Workers compensation
- > Unemployment insurance
- > Health insurance
- > Taxes
- Energy
- Prevailing wage

#### Management Infrastructure

Operating with few or no employees, entrepreneurs have limited human resources from which to draw experience and expertise to manage issues and problems that occur in the line of business. Moreover, entrepreneurs often start their businesses based on technical

expertise they have developed in a certain area and they lack the critical knowledge about how to establish and expand a successful business. Acquiring business expertise to compete effectively in a changing and competitive business environment is critical to their viability.

#### Maximizing Technologies

As more and more companies utilize technologies to achieve production and operational efficiencies, purchasing economies, new business opportunities, research and other resources, small businesses must embrace technologies all the more to compete. The challenge is for small businesses to understand what technologies are available and how to access them.

In addition to market challenges, small businesses have cited particular challenges they encounter when interfacing with the State.

#### Challenges in Interfacing with the State

- Multiple small business definitions
- > Budget cuts
- > Regulations and paperwork
- Costs of doing business
- Procurement issues
- > Availability of technical assistance
- > Availability of financing
- Inadequate advocacy
- ➤ Lack of communication

#### Multiple Small Business Definitions

With multiple small business definitions, it is difficult for small businesses to discern eligibility for State programs. The definition of small business fluctuates according to government entities and program areas. As a result, many small businesses are unaware for which, if any, State services they qualify.

#### **Budget Cuts**

Current state budget limitations are causing concern about the possibility of substantial reduction in small business assistance programs and contracting activity. Small businesses throughout the state rely upon on these opportunities. Therefore, a segment of the small business population fears that reducing and/or eliminating aspects of the funding will terminate the viability of their company.

#### Regulations and Paperwork

There is a pervasive pessimism among small businesses regarding the cost of doing business and navigating "red tape" of State regulations. Many small businesses operate at minimal staffing levels and do not have employees and legal counsel to research and ensure compliance with a complex system of regulations.

#### Costs of Doing Business

Small businesses are quite concerned about the expenses related to permitting, licensing, taxes and payroll related expenses. Collectively, these expenses comprise a significant operating cost for small businesses that typically operate with narrow profit margins.

#### <u>Procurement</u>

Small businesses continue to exhibit concern about the State contracting process, particularly in the area of the following problems:

- Certification reciprocity. Small businesses allocate extensive time and resources to obtain multiple certifications from various government agencies including the State.
- > Scarcity of bonding and insurance. Small businesses are not able to win contracts for which they are qualified if they cannot obtain the required bonding and insurance.
- ➤ Overstated contract qualifications. There is concern that the qualifications required in contracting with the State are unnecessarily high when compared to the scope of work, which places small businesses at an unfair disadvantage.
- ➤ Unbundling contracts. Significant contracts that are normally awarded to large companies can sometimes be divided into smaller segments in order to allow small businesses to participate as prime contractors.

- ➤ Unresolved contract disputes. Many small businesses do not understand or do not receive satisfaction from the dispute resolution systems currently in place to resolve contract disputes with the State or prime contractors.
- ➤ Prompt payment not uniformly implemented. Many small businesses are concerned about the time period between invoicing the State and receiving payment. It is very difficult for small business to front such costs for an extended period of time and can limit them from participating in larger contracts for which they would otherwise be able to accomplish. This problem is augmented by allegations that some State entities are exceeding their protocol governing such activity.
- ➤ Inability to win contracts once certified. Many small businesses are discouraged by not obtaining a contract for which they bid after achieving certification and registering for various procurement programs. New businesses are unable to "get their foot in the door" nor are they notified regarding the reason why their bids are denied.

#### Availability of Technical Assistance

Small businesses have received varying levels and types of service from at the Small Business Development Centers and desire to maximize their usage of the programs available.

#### **Availability of Financing**

Small businesses express an acute need of financing for start-up, expansion and working capital, especially in light of these challenging economic times. However, the State budget possibly cannot sustain the current level of funding for the Loan Guarantee Program and Export Finance Bank.

#### Inadequate Advocacy

Small business liaisons receive varying levels of support, resources and training from their departments, leading to varying levels of service for small businesses.

#### Poor Communication

At times, small businesses do not receive timely responses to their inquiries and satisfactory resolutions to their problems. In addition, they lack information on what services are available from the State and how to access them.

## **SMALL BUSINESS RESOURCES**

In light of the critical impact of small businesses on the State's economy, their cultural vitality and the daunting environment they currently face, the State has increased its commitment to providing opportunities for small businesses. This commitment is in the form of recent legislation as well as programs and services offered by State Agencies, particularly in the areas of greatest interest to small businesses: procurement, technical assistance, financing, workforce development, advocacy and communication.

#### Legislation

Examples of major legislation pertaining to small business are listed below:

- ➤ AB 77 (2000-Cardenas): Established four new Financial Development Corporations (FDCs) under the Small Business Loan Guarantee Program. To date, more than 2,000 loans have been granted totaling more than \$250 million.
- ➤ SB 266 (2000-Chesbro): Imposed a state-mandated local program by creating notification requirements regarding bid procedures for public contracts.
- ➤ AB 505 (2000-Wright): Created the Governor's Office of the Small Business Advocate, the Small Business Reform Task Force and a broad state definition of a small business.
- AB 737 (2001-Oropeza) Permits state agencies to award contracts of \$5,000 to \$100,000 to certified small businesses and veteran business enterprises without utilizing a competitive bidding process.
- ➤ AB 941 (2001-Florez): Creates veteran business enterprise advocates to assist in meeting the State's 3% participation goals for contracting with disabled veteran business enterprises.
- ➤ SB 1049 (2000-Murray): Double joined with AB 2890, increases the AB 835 established dollar range of \$2,500 and \$50,000 to \$5,000 and \$100,000 for contracting with small businesses and using simplified contracting procedures. [AB 835 (1998-Wright): Enables state agencies to contract with small businesses for goods ranging between \$2,500 and \$50,000 using simplified contracting procedures.]

- ➤ AB 1084 (2001-Wesson): Provides government agencies with more flexibility to contract with small businesses and provides incentives for large private contractors to increase small business participation in state and local government contracting.
- ➤ AB 1936 (2000-Papan) & AB 2275 (1998-Kuykendall): Require the State to provide payments for the purchase of goods and services within 45 days of invoice.
- ➤ AB 2304 (2000-Davis): Consolidates provisions regulating consulting and personal services, and revises provisions with respect to covered contracts and notice by electronic media or the Internet.
- ➤ AB 2405 (1998-Leach): Establishes small business advocates in each state agency and provides preferences for small businesses in the State's solicitation and acquisition activities.
- ➤ AB 2505 (1998-Olberg): Establishes a clear and uniform definition of small business and manufacturer for purposes of procurement and requires state agencies to assist small businesses with participating in state contracts.
- AB 2890 (2000-Committee on Consumer Protection, Governmental Efficiency and Economic Development): Double joined with SB 1049, provides further improvements to statutory procedures governing the State's procurement of goods and services.

#### Agencies & Departments

State agencies and key departments have improved services that help California's small business community.

For example, the Department of General Services has "reinvigorated" the Small Business Council, which allows small business owners and advocates to advise state government on its contracting and procurement practices. It has also worked with the Small Business Council to streamline the state's small business certification process and eliminate a significant backlog of applications. These actions are associated with many improvements, including:

- The time it takes to certify a small business has been reduced from five months to about 30 working days.
- ➤ A record increase in the pool of certified small businesses: from 5,000 to over 10,000—an increase of 100%.

➤ A 50% increase in state contracts to small businesses, the largest increase in 20 years--worth \$220 million. Last year over \$500 million in State contracts were awarded to small businesses. This is an increase of 31.5% from the previous year.

The Business, Transportation and Housing Agency offers State-wide outreach forums. These full-day conferences occur in key regions throughout the state. They provide small businesses with important information and resources and allow for direct contact with key contracting and state procurement officials.

Similarly, the Technology, Trade and Commerce Agency has also made many contributions to the small business community, such as:

- Provided more than 2,000 small business loan guarantees, totaling more than \$250 million.
- Opened the Venture Point Tech Coast Small Business Development Center the nation's only high-tech, high-growth Small Business Development Center.
- Implemented more responsive management of the California Small Business Development Center Program with an emphasis on performance.
- Released the 6<sup>th</sup> Edition of the Professional and Business License Handbook, which is a reference guide to State licenses, permits, registrations, and certifications required by law to do business in California.

The Environmental Protection Agency is providing compliance assistance to small businesses through its:

- CalGold.com Internet site that houses an extensive on-line information database and interactive permit applications.
- Permit Assistance Centers, which serves as a central source of assistance with environmental, safety, energy, employment and other related permit application and approval processes.

In terms of legal compliance, the Department of Industrial Relations' assists small businesses with adhering to work place and worker safety, labor laws and workers' compensation related regulations.

The Workforce Investment Board offers full-day small business conferences in key cities across the State. They are designed to explain key economic and labor indicators, employment law, employee recruitment and retention and special workforce needs.

The aforementioned provides a limited number of examples regarding the numerous state services for small businesses. Appendix C offers a more complete listing.

## **SUMMARY OF RECOMMENDATIONS**

Given the input summarized in the previous sections and the resources currently provided by the State of California, the SBRTF established the following summary of recommendations for action by the State:

- 1. Protect small business activities and advancements by continuing State funding to the greatest extent possible and augmenting funding from additional sources.
- 2. Launch a communications campaign to inform small businesses of currently available opportunities using plain language organized by topic:
  - A. Post information on the new web-site that will inform small businesses about the programs and resources available from the State and will include links to key web-sites to access these services. This would include programs in procurement, technical assistance, financing, workforce development, technology and other topics of interest, as well as relevant legislation and permitting and licensing assistance.
  - B. Publish a Small Business Guide to the State. This will be effective in communicating resource information to small businesses at events and to those without access to the internet.
  - C. Conduct outreach at community organizations throughout the State from Small Business Day (May 29) through the Governor's Small Business Economic Summit (Fall, 2002) to promote participation in the State's small business services.
- 3. Establish and promote a multi-faceted intake system designed to gather reform ideas from the small business community:
  - A. Establish a web-based intake system that will facilitate understanding and prioritization of the reforms needed for companies of differing sizes, industries, regions, etc.

- B. Produce a printed version of the web-based intake system for distribution and collection at public hearings, focus groups, interviews and events organized around the state.
- 4. Convene monthly meetings of the SBRTF to complete the action items outlined in AB 505 as well as to develop strategies for:
  - A. Defining small business more clearly.
  - B. Investigating cost and red tape reductions for small businesses, and recommending further, more specific actions to remedy these reductions.
  - C. Assisting DGS and the Small Business Council on further improving procurement systems and providing Small Business Procurement Advocates with adequate information and resources to effectively serve small businesses.
  - D. Assisting TTCA and the Small Business Board to 1) identify sources of funding to augment financing programs and 2) work with the US SBA and CA Community Colleges to deliver consistent technical assistance programs statewide.

# APPENDIX A: THE SMALL BUSINESS REFORM TASK FORCE

AB 505 (Section 65054.5.) established the Small Business Reform Task Force (SBRTF):

- (a) There is hereby created a Governor's Small Business Reform Task Force. The task force shall be chaired by the Director of the Office of Small Business Advocate and shall include representatives appointed by the Governor from the California Small Business Association, other small business associations, and agency secretaries or their designees from state agencies heavily involved in small business regulation.
- (b) The task force shall identify problems and ideas from the small business community concerning the regulation, communication, and assistance of state government with small business. The task force shall create a website to solicit public input, as well as, conduct at least four public hearings around the state to seek advice and recommendations.
- (c) The task force shall conduct a study to consider the problems encountered by small businesses working with different levels of government, different offices in state and local government, and multiple jurisdictions, especially in the context of applying for and obtaining required permits and licenses. The study may include participation by the California League of Cities, county boards of supervisors, and small business representatives.
- (d) The task force shall prepare and submit a report on or before May 1, 2002, to the Governor and the budget committee of each house of the Legislature with a discussion of its findings and recommendations.

# APPENDIX B: GOVERNOR'S OFFICE OF THE SMALL BUSINESS ADVOCATE

AB 505 (Section 65054.1) established the Governor's Office of the Small Business Advocate to:

- (1) Serve as the principal advocate in the state on behalf of small businesses, including, but not limited to, advisory participation in the consideration of all legislation and administrative regulations that affect small businesses.
- (2) Represent the views and interests of small businesses before other state agencies whose policies and activities may affect small business.
- (3) Enlist the cooperation and assistance of public and private agencies, businesses, and other organizations in disseminating information about the programs and services provided by state government which are of benefit to small businesses, and information on how small businesses can participate in, or make use of, those programs and services
- (4) Issue a report every two years evaluating the efforts of state agencies and, where appropriate, specific departments that significantly regulate small businesses to assist minority and other small business enterprises, and making recommendations that may be appropriate to assist the development and strengthening of minority and other small business enterprises.
- (5) Consult with experts and authorities in the fields of small business investment, venture capital investment, and commercial banking and other comparable financial institutions involved in the financing of business, and with individuals with regulatory, legal, economic, or financial expertise, including members of the academic community, and individuals who generally represent the public interest.
- (6) Determine the desirability of developing a set of rational, objective criteria to be used to define small business, and to develop that criterion, if appropriate.
- (7) Seek the assistance and cooperation of all state agencies and departments providing services to, or affecting, small business, including the small business liaison designated pursuant to Section 15379.50, to ensure coordination of state efforts.

- (8) Receive and respond to complaints from small businesses concerning the actions of state agencies and the operative effects of state laws and regulations adversely affecting those businesses.
- (9) Counsel small businesses on how to resolve questions and problems concerning the relationship of small business to state government.
- (10) Maintain, publicize, and distribute an annual list of persons serving as small business ombudsmen throughout state government. 65054.4
  - (a) Each agency of the state shall furnish to the advocate the reports, documents, and information that are public records and that the director deems necessary to carry out his or her functions under this chapter.
  - (b) The advocate shall prepare and submit a written annual report to the Governor and to the Legislature that describes the activities and recommendations of the office.
  - (c) The advocate may establish a centralized interactive telephone referral system to assist small and minority businesses in their operations, including governmental requirements, such as taxation, accounting, and pollution control, and to provide information concerning the agency from which more specialized assistance may be obtained. The advocate may establish and advertise a telephone number to serve this centralized interactive telephone referral system.

## **APPENDIX C: SMALL BUSINESS RESOURCES**

As a preliminary inventory of activities impacting small business, the following table provides insight into many of the programs and resources that State agencies and departments offer in identified areas of greatest concern to small business. It should be noted that this is not an exhaustive list and that many of the services listed below are also availed to medium and large businesses.

# Table of State Activities Impacting Small Businesses According to Focus Area<sup>3</sup>

#### **Focus Areas**

**Procurement** — Virtually all State departments purchase goods and services. On May 30, 2001, the Governor issued *Executive Order D-37-01* that stipulates that state agencies must aggressively pursue an annual 25 percent small business participation level in state contracting. Those agencies that do not achieve 25% must explain the reason(s) for this deficiency, including a plan for improving contracting opportunities for small businesses. On June 22, 2001, the Governor issued *Executive Order D-43-01*, promoting a 3% goal for Disabled Veteran Business Enterprises. Because virtually all disabled veteran businesses are small businesses, Agency Secretaries and the Department of General Services were instructed, to the extent possible, to coordinate their efforts under *D-43-01* with *D-37-01*.

Certified small businesses competing on a state contract are given a five- percent contracting preference. This preference means that if a certified small business is within five percent of the lowest bid, the contract will be awarded to small business

#### **State Activities Impacting Small Businesses**

#### State & Consumer Services Agency

#### **Department of General Services**

#### **Procurement Division**

#### California State Contracts Register

A on-line listing of State construction and service contracts of \$5,000 or more and commodity contracts of \$25,000 with an average of 400 potential contracts and contact information in each issue.

#### Subscription Outreach Service

A fee service that sends State and local contract opportunities in specific business categories in CSCR via e-mail or fax.

#### ➤ Cal-Buy

An award-winning on-line procurement system where nearly half (47 percent) of the purchases (from \$3 to \$2.7 million) have been made through state-certified small businesses largely because small business commodities are highlighted in the system.

#### California Multiple Award Schedule

Establishes agreements with suppliers that offer products and services that are listed on a multiple award schedule with the <u>Federal General Services</u>
<u>Administration (GSA)</u> or other approved multiple award contracts. A CMAS contractor DOES NOT have to hold a Federal GSA multiple award schedule contracts.

#### Master Agreements

Competitively bid, Statewide agreements for often-purchased services and commodities at set prices.

#### **State and Consumer Services Agency**

**Department of General Services** 

**Procurement Division** 

#### Office of Small Business/DVBE Certification

#### Certification

Enables small businesses to 1) qualify for a 5% bid preference on applicable state contracts, 2) to become eligible for Prompt Payment including higher interest penalties for late, undisputed invoice payments (with certain exceptions) and 3) to be listed in the state's Internet Certified Firm Listing offering visibility and networking.

May 1, 2002

<sup>&</sup>lt;sup>3</sup> This list includes the major state services that help small business. The State of California offers additional services not listed.

Focus Areas	State Activities Impacting Small Businesses
	Business, Transportation and Housing Agency
	> State-wide Outreach Forums
	Full-day conferences in key regions throughout the state, communicating key
	small business information and resources; provide direct contact with key
	contracting and procurement officials within Agency departments
	Business, Transportation and Housing Agency
	Stephen B. Teale Data Center
	> Procurement Forums
	Full-day forums where IT and non-IT small business vendors present
	information on procurement and contracting services to State of California
	decision makers and advocates
	Business, Transportation and Housing Agency Department of Transportation
	Procurement Forums
	Full-day forums where DOT project managers present upcoming IT contracting
	opportunities to small businesses throughout the State of California; includes
	webcast abilities
	Resources Agency Department of Fish and Game
	► Internal Web Page
	to serve as a one-stop information source for the Small Business /DVBE
	program
Financing – Loans and grants	Technology, Trade & Commerce Agency
	Division of Economic Development
	Office of Small Business
	California Small Business Financial Development Corporations
	The California Small Business Financial Development Corporations provide
	loan guarantees, bond guarantees and make available special direct loans to
	qualified small business owners. The loan guarantee program has the capacity to guarantee more than \$120 million for starting or expanding small businesses.
	Direct loans include farm loans in targeted areas; underground storage tank
	replacement or removal; environmental compliance loans; and the fishing fleet
	loan program for energy retrofitting. Disaster relief programs in the form of
	"bridge or interim loans" are available when the situation arises. To apply for a
	loan guarantee or a special direct loan, call the California Office of Small
	Business for the location of the Corporation nearest you.
	Tachualam, Trada 9 Cammana Amana,
	Technology, Trade & Commerce Agency Division of Science, Technology and Innovation
	Gold Strike Partnership Program
	Cash match to leverage private and federal dollars for technology development
	and commercialization, particularly in response to defense industry conversion
	and diversification.
	Talled a Tool 20 amount Access
	Technology, Trade & Commerce Agency
	Division of International Trade and Investment California Export Finance Office
	Provides working capital loan guarantees to help qualified companies obtain
	short-term capital loans for specific export orders.
	Short term dupitur round for oposino expert orders.

#### **Focus Areas**

Technical Assistance – In general, many agencies and departments provide in-house small business technical assistance, such as counsel from procurement officers and advocates with SB/DVBE participation training. Training helps ensure that procurement staff understand related programs and projects, as well as how to best engage small businesses.

#### **State Activities Impacting Small Businesses**

## Technology, Trade & Commerce Agency Division of Economic Development

#### Office of Small Business

#### Small Business Development Centers

Management and technical assistance may be obtained through the Small Business Development Centers. The Centers' one-stop business counseling, planning, marketing and training programs that federal, state, educational and private resources are available in nearly every county in California. Under certain circumstances, some Centers also provide export assistance, technology resources and disaster relief assistance.

#### Technology, Trade & Commerce Agency

#### **Division of Economic Development**

#### RUST Grant and Loan Program

Helps the owners and operators of small, independent, underground storage tank sites to comply with Senate Bill 989 via financing the removal and replacement of underground storage tanks, dispenser containment boxes, monitoring systems, piping, enhanced vapor recovery systems, and dispensers.

#### > Sudden and Severe Economic Dislocation Loan Program

Provides below-market-rate business loans for job creation and retention in areas of the state affected by plant and military base closures, defense downsizing, industry layoffs and presidentially-declared disasters.

#### > Old Growth Diversification Revolving Loan Fund

Provides loans to businesses to help areas affected by the reduction in timber harvests increase non-timber related employment and diversify the local economy.

#### **➤** Main Street Program

Focuses on enhancing the economic, social, cultural and environmental well being of traditional commercial districts located in California's diverse cities, towns, and neighborhoods. This helps communities build a strong broad-based organization to implement and manage the revitalization process.

#### > Enterprise Zone Program

Targets economically distressed areas throughout California through special state and local incentives that encourage business investment and promote the creation of new jobs. Small businesses benefit from tax incentives as private sector market forces revive the local economy.

#### <u>Technology, Trade & Commerce Agency</u> <u>Division of Science, Technology and Innovation</u>

#### Regional Technology Alliances

Technology-based, industry-driven nonprofit organizations that advise technology companies about growth, venture capital and other relevant topics.

#### Manufacturing Technology Program

Provides small and medium-sized manufacturers with access to a wide range of inexpensive high-quality business assistance, including technical consultative services, work force training and professional development.

#### Rural E-Commerce

The Rural E-Commerce program provides resources for rural California communities to spur innovative, community-driven solutions to address the telecommunications challenges faced by rural residents.

#### Next Generation Internet

California's two NGI Application Centers will allow small businesses and researchers to develop, test, incubate and demonstrate new applications

#### Focus Areas State Activities Impacting Small Businesses designed specifically to take advantage of the Next Generation Internet. California Technology Investment Partnership (CalTIP) A matching grant program that facilitates the creation of new high-tech businesses in California. **Space Industry Programs** Provides funding for public and private efforts to spur or enhance California's competitive participation in the domestic and global space industry. **Technology, Trade & Commerce Agency Division of International Trade and Investment** Office of Foreign Investment Promotes job-creating foreign investments in the state through site-selection assistance, outbound investment missions, inbound missions and publicity and editorial development; For California companies, helps identify foreign partners for direct capital investment, joint venture partnerships, licensing agreements and R&D collaboration. > Office Of Export Development Offers an array of innovative export marketing services specifically designed to help California's small and medium-sized companies sell their way to export > Environmental Technology Export Program Assists California companies in exporting their technologies, goods and services to international markets; partners with various federal, state and private nonprofit entities, as well as local and regional multiplier organizations, to support the state's environmental export industry. > Overseas Offices of Trade and Investment Promotes exports and foreign investment by matching California products and services with foreign buyers, collects trade leads, offers counseling on market penetration strategies, advertises and promotes California as a supplier and location for investment, organizes foreign investment and buying missions to California and supports businesses in foreign trade shows. **Health and Human Services Agency Employment Development Department** Tax Branch Tax Assistance Provides continual technical tax assistance to all employers, the vast majority of which are small businesses. **Health and Human Services Agency Employment Development Department** Job Services Branch **CalJOBS** California's free automated, easy-to-use Internet system serving employers and employees **Employment Training Panel Training Funding**

and domestic competition.

Uses its \$762,000,000 training budget to improve the economic climate by training new workers and retraining workers in danger of being laid off as a result of technological advancements in the workplace, and because of foreign

Focus Areas	State Activities Impacting Small Businesses
Workforce Development	Workforce Investment Board
·	Preparing the Workforce for the New Economy
	Full-day conferences in key cities across the State, explaining key economic
	and labor indicators, employment law, employee recruitment and retention and
	special workforce needs
	➤ Labor Market Studies
	Regional demographic studies for use in business planning, business expansion
	and site location planning.
	Human Resource Development Programs
	Free, customized employee recruitment including needs assessment, posting
	advertisements, reviewing applications and scheduling interviews. Free
	employee training programs from computer classes to customized group-
	training programs. One-on-one counseling on employer issues such as legal,
	emergency planning, employee handbooks, etc.
	> Job Training  Dedicates \$620,000,000 for ish training \$59/ of which goes to lead Worldfares
	Dedicates \$630,000,000 for job training, 85% of which goes to local Workforce Investment Boards
Compliance legues mandatary licenses regulatory	
Compliance Issues – mandatory licenses, regulatory requirements and taxes	Technology, Trade & Commerce Agency Division of Economic Development
requirements and taxes	> Professional and Business License Handbook
	In its 6th Edition, the handbook is a reference guide to State licenses, permits,
	registrations, and certifications required by law to do business in California. It is
	available on-line at
	http://www.commerce.ca.gov/state/ttca/ttca_business_display.jsp?BV_SessionI
	mtp://www.commoroc.ou.gov/stato/ttou/ttou/ttou_business_display.jop:.bv_cossion
	Health and Human Services Agency
	Employment Development Department
	➤ Employer Counsel
	Provides continual employer assistance to comply with payroll tax requirements
	and to help promote fair business competition
	Work Sharing Unemployment Insurance Program
	Provides a temporary and practical alternative to layoffs by allowing for the
	payment of Unemployment Insurance benefits to individuals whose wages and
	hours have been reduced
	Department of Industrial Relations
	Division of Occupation Safety and Health
	Enforces standards that protect the state's workers against on-the-job hazards.
	The Cal/OSHA Consultation Service helps employers develop safer workplaces
	Division of Labor Standards Enforcement
	Enforces State labor laws governing minimum wages, overtime pay and working
	conditions
	Division of Workers' Compensation
	Administers the State workers' compensation system that aids injured wage
	earners
	Division of Labor Statistics an Research
	Determines prevailing wages for public works projects, computes the California
	Consumer Price Index, and compiles labor information including workplace
	fatalities and injury/illness rates.
	Environmental Protection Agency
	Office of the Secretary
	> CalGOLD.com
	Houses an extensive on-line information database and interactive permit
	applications
	approaction to

Focus Areas	State Activities Impacting Small Businesses
	<ul> <li>Permit Assistance Centers</li> <li>Serves as a central source of assistance with environmental, safety, energy,</li> </ul>
	employment and other related permit application and approval processes
	Franchise Tax Board
	> Tax Collection Assistance
	Board of Equalization
Adversary 9 Communications Many approise and	Tax Collection Assistance
Advocacy & Communications – Many agencies and departments provide publications, many related to	State & Consumer Services Agency Department of General Services
procurement and compliance issues, as well as website	Procurement Division
information and call in numbers. All departments have	> Small Business Council
Small Business Procurement Advocates as well as Small Business Liaisons to answer inquires and resolve	> 120 Small Business Procurement Advocates
concerns voiced by small businesses.	Business, Transportation and Housing Agency
	Department of Transportation,
	<ul> <li>Small Business Council</li> <li>Provides input on federal and state small business issues and concern as they</li> </ul>
	relate to the Department of Transportation, and serves as an advisory arm to
	the Director of Transportation on SB/DVBE/DBE issues.
	> 13 Small Business Procurement Advocates and Liaisons
	Technology, Trade & Commerce Agency
	<u>Division of Economic Development</u>
	Office of Small Business  ➤ California Small Business Board
	The Board is composed of newly constituted legislators and small business
	owners representing a broad spectrum of the California economy. The Board,
	through the Office of Small Business, provides marketing and advocacy
	services to the small business communities in California; advises the Governor on matters and issues affecting the small business community and serves as a
	principal advocate to the small business community.
	California Small Business Advocate
	The office serves as the state's chief advocate for small business by addressing
	wide ranging issues impacting the small business community.  Advocacy Program
	Opens lines of communication between small businesses and state resources.
	Personnel answer a wide range of questions on issues such as licensing,
	permits, registrations, filings, financing, planning, contracting opportunities, business formations, and trading opportunities.
	Resources Ameney
	Resources Agency Department of Parks and Recreation
	Purchasing Needs List
	Distributes a brochure detailing the goods and services that it procures at small
	business conferences and trade shows.
	Health and Human Services Agency
	Employment Development Department
	<ul> <li>Office of Taxpayer Rights</li> <li>Established to protect employer/taxpayer rights, to provide independent review</li> </ul>
	of departmental actions and to cooperatively resolve problems
	> One-Way Communication Vehicles
	Provides numerous communications, such as newsletters, fact sheets, guides

Focus Areas	State Activities Impacting Small Businesses
	and publications  Small Business Employer Advisory Committee  Partners with the committee on the formation of policies, procedures and services geared toward small business employer needs
	Health and Human Services Agency Managed Risk Medical Insurance Board  Communication  The Managed Risk Medical Insurance Board maintains an open dialog with health care providers, many of who are small businesses, through monthly board meetings.

## **APPENDIX D: SELECTED REPORTS**

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